

Message Text

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E.O. 11652: N/A
TAGS: EGEN, ETRD, ECON, EEWT, OECD
SUBJECT: XCSS MARCH 3: ECONOMIC RELATIONS BETWEEN
MEMBER COUNTRIES AND EAST-WEST ECONOMIC
RELATIONS

1. SUMMARY: XCSS DISCUSSION OF CURRENT ECONOMIC
SITUATION CENTERED ON CONCERNS ABOUT DANGERS RENEWED
PROTECTIONISM WOULD POSE TO FULFILLMENT OF OECD GROWTH
STRATEGY, AND THERE WAS BROAD CONSENSUS THAT INCREASED
COOPERATION WAS NEEDED TO COPE WITH GENUINE SECTORAL
PROBLEMS. THERE WAS GENERAL AGREEMENT THAT DISCIPLINE
REPRESENTED BY OECD TRADE PLEDGE IS STILL NEEDED AND
MOST DELS THOUGHT THAT WHILE PLEDGE SHOULD BE SEEN
WITHIN A BROAD MACRO-ECONOMIC CONTEXT, ADHERENCE TO IT
SHOULD NOT BE CONDITIONED ON THE FULFILLMENT OF OTHER
ECONOMIC OBJECTIVES. SEVERAL DELS INDICATED THEY
LEANED TOWARD OPTION OF PROLONGING EXISTING PLEDGE.
XCSS AGREED TRADE COMMITTEE SHOULD CONTINUE ITS WORK
ON ALTERNATIVES. JAPANESE MADE FRANK STATEMENT ABOUT
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THEIR POLICY OF USING VOLUNTARY EXPORT RESTRAINTS TO
AVOID WHAT THEY CONSIDERED TO BE WORSE ALTERNATIVE OF
UNILATERAL ACTIONS, BUT ADMITTED THEY FELT THEY WERE
ACTING IN A VACUUM IN TERMS OF INTERNATIONAL PRINCIPLES
OF BEHAVIOR. EC EMPHASIZED NEED FOR SOLIDARITY AMONG
OECD MEMBERS TO DEAL WITH SECTORAL PROBLEMS AND SUPPORT-
ED USE OF CONSULTATION MECHANISMS TO AVOID UNILATERAL

RESTRICTIONS. US DEL (UNDER SECRETARY COOPER) STRESSED IMPORTANCE OF FINDING BODY WHERE KEY POLICY OFFICIALS COULD LINK TOGETHER CONSIDERATION OF MACRO-ECONOMIC, TRADE, AND FINANCING QUESTIONS. HE PROPOSED A STUDY OF THE IMPLICATIONS FOR OECD AND WORLD GROWTH OF A SCENARIO IN WHICH WEAKER COUNTRIES ELIMINATED CURRENT ACCOUNT DEFICITS BY REDUCING DOMESTIC EXPENDITURE AND RESTRICTING TRADE -- WITH OBJECTIVE OF SEEING WHETHER OECD GROWTH TARGETS AND POLICY RECOMMENDATIONS WERE CONSISTENT WITH IMPROVED STRUCTURE OF DEFICITS. ON EAST-WEST SECRETARY GENERAL GAVE STATUS REPORT OF OECD WORK AND US DEL REITERATED SUPPORT FOR THIS ACTIVITY. END SUMMARY.

2. AFTER REPORT BY SECRETARIAT OF RECENT EPC AND WP-3 MEETINGS, AND BY TRADE COMMITTEE CHAIRMAN STEEG OF ONGOING WORK ON TRADE PLEDGE, XCSS TOOK UP DISCUSSION OF ECONOMIC RELATIONS BETWEEN MEMBER COUNTRIES. ON WHOLE, THERE WAS NO DISAGREEMENT WITH SECRETARY GENERAL VAN LENNEP'S CHARACTERIZATION OF ECONOMIC SITUATION AS ONE OF "CONDITIONAL OPTIMISM" -- MEANING THAT OUTLOOK FOR GROWTH AND PRICE STABILITY WAS PROMISING IF COUNTRIES CARRIED OUT THE STRATEGY THEY HAD AGREED AND AVOIDED USING TRADE RESTRICTIONS. VAN LENNEP ALSO TOOK CAUTIOUS APPROACH ON SECTORAL PROBLEMS, WARNING THAT LOW DEMAND MADE IT TEMPTING TO ACCEPT ARGUMENTS ABOUT STRUCTURAL PROBLEMS, AND ALSO POINTED OUT DANGERS OF ESTABLISHING ANY LINK BETWEEN COMMITMENTS TO AVOID TRADE RESTRICTIONS AND UNDERTAKINGS ON OTHER ECONOMIC POLICIES. LIMITED OFFICIAL USE

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THESE VIEWS RECEIVED GENERAL SUPPORT. US DEL (UNDER SECRETARY COOPER) OPENED DEBATE BY STRESSING IMPORTANCE OF FOCUSING ON THE LINKS BETWEEN ALL IMPORTANT FACETS OF THE WORLD ECONOMY (I.E. MACRO-POLICIES, TRADE, FINANCE). HE NOTED THAT THESE VARIOUS ELEMENTS, WHICH ARE TREATED SEPARATELY IN DIFFERENT OECD COMMITTEES, COULD BE MERGED IN XCSS BUT FOR FACT THAT XCSS DELS WERE NOT THOSE WHO DEAL WITH OVERALL ECONOMIC POLICY QUESTIONS. WHILE SUGGESTING THAT EPC MANDATE MIGHT BE BROADENED TO INCLUDE TRADE MATTERS, HE RECOGNIZED THAT THIS MIGHT NOT BE POSSIBLE, AND NOTED THAT, IN ANY CASE, THE SAME TYPES OF FUNCTIONAL DIVISIONS EXISTED WITHIN NATIONAL GOVERNMENTS.

3. TURNING TO QUESTION OF BALANCE OF PAYMENTS ADJUSTMENT PROCESS, COOPER STATED THAT FURTHER DEBATE CONCERNING APPROPRIATE DIVISION OF ADJUSTMENT BURDEN

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BETWEEN SURPLUS AND DEFICIT COUNTRIES WAS UNLIKELY TO
RESOLVE THIS ISSUE. HE PROPOSED THAT SECRETARIAT
ANALYZE SCENARIO IN WHICH DEFICIT COUNTRIES
UNDERTOOK ENTIRE RESPONSIBILITY FOR ADJUSTMENT (THROUGH
COMPRESSION OF DOMESTIC DEMAND OR TRADE RESTRICTIONS)
AND PROCEED TO EXAMINE IMPLICATIONS FOR AGGREGATE
OECD AREA GNP GROWTH. HE EXPRESSED VIEW THAT SUCH AN
ANALYSIS COULD WELL REVEAL INCONSISTENCY BETWEEN
SURPLUS COUNTRIES' STATED DESIRE FOR ADJUSTMENT IN
DEFICIT COUNTRIES AND THEIR OWN GROWTH PROJECTIONS. IF
ANALYSIS SHOWS THAT THESE GROWTH FORECASTS CONTAIN
IMPLICIT ASSUMPTION THAT ADJUSTMENT WILL NOT TAKE PLACE,
IMPLICATIONS FOR FUTURE BORROWING REQUIREMENTS ARE
IMPORTANT. COOPER SUGGESTED THAT SECRETARIAT COULD
PRESENT RESULTS OF SUCH AN EXERCISE TO XCSS OR EPC IN
THE LATE SPRING.

4. ON TRADE, COOPER STRESSED DANGERS OF PROTECTIONISM.
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HE SAID THAT SOME KIND OF RENEWAL OF TRADE PLEDGE COMMITMENT WAS NEEDED AND THAT THIS SHOULD NOT BE WEAKENED BY CONDITIONING IT ON COMMITMENTS IN OTHER AREAS OF ECONOMIC POLICY. COOPER ALSO URGED THAT BILATERAL TRADE DISCUSSIONS ON SECTORAL PROBLEMS COME UNDER BETTER INTERNATIONAL SURVEILLANCE, SO THAT SIDE EFFECTS ON THIRD PARTIES COULD BE FULLY ASSESSED. OECD WOULD BE NATURAL PLACE TO DO THIS ON AD HOC BASIS. HE ENCOURAGED TRADE COMMITTEE TO CONTINUE ITS WORK.

5. EC (HIJZEN) PLACED PARTICULAR STRESS ON THE NEED TO AVOID UNILATERAL ACTIONS IN RESPONSE TO SECTORAL PROBLEMS BY MEANS OF "SOLIDARITY" BETWEEN OECD MEMBERS AND USE OF ORGANIZATION'S CONSULTATION PROCEDURES. HE POINTED TO EC USE OF CONSULTATIONS IN CASE OF STEEL IN 1975, AND INDICATED WILLINGNESS TO CONTINUE COOPERATION OF THIS SORT. ON TRADE PLEDGE (WHILE INDICATING THE EC HAD NOT YET ARRIVED AT FIRM POSITION), HIJZEN EXPRESSED DOUBT THAT IT WOULD BE POSSIBLE TO NEGOTIATE A NEW VERSION OF THE PLEDGE AND SAID THAT EC THEREFORE TENDED TO THINK IT WOULD BE BEST TO STICK TO THE OLD ONE. NEW ZEALAND DEL SAID GNZ WOULD HAVE PROBLEMS RENEWING PLEDGE IF IT COULD NOT BE LINKED TO ASSURANCES BY STRONG COUNTRIES THAT THEY WOULD ACT TO ACCELERATE THE ADJUSTMENT PROCESS AND BRING ABOUT A PATTERN OF CURRENT ACCOUNT BALANCES IN WHICH THE WEAK COUNTRIES WOULD NOT HAVE TO ACCUMULATE UNWANTED DEBT. ITALIAN DEL EXPRESSED FEAR THAT UNLESS GROWTH PICTURE IMPROVED, PROTECTIONISM WOULD BE NEEDED TO INSURE THE POLITICAL SURVIVAL OF SOME GOVERNMENTS. AUSTRALIA STATED CONCERN THAT DEMAND EXPANSION, IF NOT VERY CAREFULLY MEASURED, COULD LEAD TO INFLATION, GREATER UNEMPLOYMENT, AND THUS TO HEIGHTENED PROTECTIONIST PRESSURES RATHER THAN RELIEF FROM THEM. SWISS GAVE SIMILAR PRIORITY TO COMBATTING LIMITED OFFICIAL USE

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INFLATION AND COMPLAINED THAT EXCHANGE RATE AND FINANCIAL SUPPORT FUND UNDERTAKINGS ACCOMPANYING RENEWAL OF PLEDGE IN 1976 HAD NOT BEEN IMPLEMENTED. UK DEL RAN OVER ARGUMENTS FOR AND AGAINST ADDITIONAL BOP FINANCING FACILITIES AND CONCLUDED THAT MORE WERE NEEDED.

6. JAPANESE, PRESUMABLY IN RESPONSE TO US REMARKS ABOUT BILATERAL ARRANGEMENTS, MADE UNUSUALLY FRANK STATEMENT ABOUT THEIR USE OF UNILATERAL EXPORT RESTRAINTS, INDICATING THEY CONSIDERED THESE TO BE

PREFERABLE TO FORMAL RESTRICTIVE ACTION BY THEIR TRADING PARTNERS. JAPANESE DEL (YOSHINO) STATED, HOWEVER, THAT GOJ WAS UNEASY ABOUT DOING THIS AND FELT THERE WERE NO RULES TO GUIDE GOVERNMENTS IN RESPONDING TO REQUESTS FOR SUCH ARRANGEMENTS BY THEIR TRADING PARTNERS. YOSHINO RECOGNIZED THAT WHEN DONE BILATERALLY SUCH AGREEMENTS COULD CAUSE TROUBLE FOR THIRD PARTIES, BUT HOPED OTHER COUNTRIES WOULD RECOGNIZE JAPAN'S USE OF THESE WAS INTENDED TO BE IN THE INTEREST OF PRESERVING THE SPIRIT OF LIBERAL TRADE. HE INDICATED JAPAN WAS GRATEFUL FOR MECHANISM PROVIDED BY OECD FOR WORKING OUT OF SHIPBUILDING PROBLEM. ON TRADE PLEDGE YOSHINO INDICATED JAPAN LEANED IN DIRECTION OF RENEWING IN PRESENT FORM, SAYING THAT ATTEMPT TO AMEND IT WOULD OPEN A PANDORA'S BOX.

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7. AT END OF DEBATE SECRETARY GENERAL VAN LENNEP SAID SECRETARIAT WOULD GIVE THOUGHT TO HOW THE ORGANIZATION COULD RESPOND TO THE VARIOUS PROPOSALS WHICH DELEGATIONS HAD MADE.

8. EAST-WEST ECONOMIC RELATIONS: SECRETARY GENERAL VAN LENNEP GAVE BRIEF STATUS REPORT OF ORGANIZATION'S WORK ON E/W, SAID SECRETARIAT INTENDED TO ISSUE BIENNIAL UPDATE OF ITS ANALYSIS PRESENTED LAST FALL TO SERVE AS BASIS FOR DISCUSSIONS, AND SUGGESTED E/W WOULD BE APPROPRIATE SUBJECT FOR XCSS AGENDA AT ITS NEXT MEETING. US DEL RESTATED SUPPORT FOR OECD WORK AND SAID US WOULD BE LOOKING FORWARD TO DISCUSSING AT FUTURE MEETINGS THE IMPLICATIONS FOR OECD COUNTRIES OF THE TRENDS REVEALED BY THE STUDIES ' NO OTHER DEL INTERVENED, AND CHAIRMAN CONCLUDED THAT US SENTIMENTS WERE SHARED BY GROUP AS A WHOLE.
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9. NEXT MEETING: DATE OF NEXT XCSS WAS SET TENTATIVELY FOR MAY 17.
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Message Attributes

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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Office: ACTION EUR
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Review Action: RELEASED, APPROVED
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